Comments to “The Case for Global Fiscal Stimulus”,

By

C. Freedman, M. Kumhof, D. Laxton, J. Lee

Roberto Perotti

Attempt at quantifying standard Keynesian effects of fiscal policy

<u>What you get is what you put in:</u>

- Non-Ricardian consumers => if more transfers, more consumption
- Distortionary taxation => if reduce labor taxes, GDP ↑
- Government investment has demand effects and productivity effects => income and wealth ↑
- If monetary accommodation, r ↑ less => less crowding out
- If coordinated expansion, larger effects because demand increases more and less leakage
- If r ↑because of perceived or actual future deficits, expansionary effects are smaller

All this makes sense. But we know very little on the underlying parameters, and model is sensitive to them

Ex. 1: 25% Ricardian consumers in industrialized economies, 50% in emerging markets

Ex. 2: Productivity affects of government investment, and their riming

Ex. 3: Distortionary effects of taxation

Need genuine empirical assessment of these and other effects

How to evaluate the fiscal stimulus.

1.5% of GDP in year 1, .5% in year 2, with lump-sum transfers.

But how to evaluate the multipliers? These are not exogenous changes, or cyclically adjusted changes. And resulting stimulus is always a mixture of lump-sum transfers (one of the four instruments) and something else, in unknown proportions.

Comments on: “Comapring Transatlantic Responses to the Crisis: The Fiscal Policy Response”

By

M. Horton, M. Kumar, and P.Mauro

Roberto Perotti

Very useful review of state of implementation of fiscal stimulus measures around the world

Important question because widespread view that fiscal stimulus has been key to avoiding disaster, and that risk of double dip if stimulus withdrawn prematurely.

What I took away

- Very limited info on state of disbursement, except for France (taxes) and possibly US

- Even existing info not always clear. For instance, in US in July 41% of funds “paid out”. But it seems this includes funds to states, who in turn have to actually disburse them.

- Enormous disparity in size and composition of responses among industrialized countries => it seems nothing systematic can be said.

In the end, we still do not know if and how fiscal measures contributed to avoiding the recession (not a silly question: for some, they contributed to exacerbating the recession)

Where do we go from here? The trade-off is obvious (at least for neo-Keynesian approach): if withdraw, negative demand effect; if keep, negative expectation and crowding out effects.

General assumption: keep it until 2010 at least. Maybe. It all boils down to multipliers, and perhaps nonlinearities: stronger effect in recessions, with less crowding out?

Partly a matter of politics: old age and health expenditure. Not easy, maybe impossible.

Long term projections: not necessarily good idea.

NFPS and maybe also FPS, and contingent liabilities: yes, but how. And open to all sort of contentions

Fiscal policy risk: very contentious, difficult to market politically.